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PRESS RELEASE

**SECURITIES AND BANK FRAUD CHARGES UNSEALED AND GUILTY PLEAS
ANNOUNCED IN THE COLLAPSE OF AMERICAN TISSUE INC - INVESTORS, BANKS
AND FINANCIAL INSTITUTIONS LOSE NEARLY \$300 MILLION - FORMER ARTHUR
ANDERSEN AUDITOR ARRESTED FOR SHREDDING DOCUMENTS**

ROSLYNN R. MAUSKOPF, United States Attorney for the Eastern District of New York, **WILLIAM E. KEZER**, Inspector-in-Charge, New York Division, United States Postal Inspection Service, and **KEVIN P. DONOVAN**, Assistant Director-in-Charge of the Federal Bureau of Investigation in New York, announced today the unsealing of charges against four individual defendants and two corporate defendants for their roles in the collapse of the now bankrupt Hauppauge, Long Island, based paper manufacturer, American Tissue Inc., and the filing of an obstruction of justice charge against a fifth individual. The company's failure cost banks, financial institutions and investors almost \$300 million. Prior to its bankruptcy in September 2001, American Tissue, headquartered at 135 Engineers Road in Hauppauge, New York, was the fourth largest paper and tissue products manufacturer in the United States, with several facilities and mills located throughout the United States and Mexico.

Specifically, the former chief executive officer and part owner of American Tissue, **MEHDI GABAYZADEH**, was indicted for securities fraud, bank fraud, and conspiracy. **ALI AMZAD**, a former employee of American Tissue, was indicted for conspiracy and bank fraud. **SUPER AMERICAN TISSUE INC.**, a former indirect owner of American Tissue, was indicted for bank fraud, wire fraud, and conspiracy, and **AMERICAN PAPER CORPORATION**, a company owned by **GABAYZADEH**, was indicted for wire fraud. Also today, the government announced the unsealing of previously entered guilty pleas by American Tissue's former chief financial officer, **EDWARD I. STEIN**, to securities and bank fraud charges, and its former vice president of finance, **JOHN LORENZ**, to a conspiracy charge. Finally, the government announced the arrest of **BRENDON McDONALD**, a former senior auditor of the public accounting firm, Arthur Andersen LLP ("Andersen"), on an obstruction of justice charge in connection with the destruction of American Tissue accounting records at the Andersen office in Melville, New York, as the fraud scheme unraveled.

Simultaneous to the unsealing of these guilty pleas and criminal charges, the Securities and Exchange Commission commenced a fraud and civil injunctive action against American Tissue and three of its former officers, **GABAYZADEH**, **STEIN** and **LORENZ**, based on the filing of fraudulent American Tissue publicly filed annual and quarterly financial reports in 2000 and 2001.

The LaSalle Revolver and Bond Offering

The unsealed securities and bank fraud charges center on the manipulation by the defendants **GABAYZADEH**, **STEIN**, **LORENZ** and **AMZAD**, and others, of American Tissue's \$145 million revolving line of credit (the "LaSalle Revolver") with the LaSalle National Bank Association, which represented a syndicate of financial and lending institutions including Fleet Capital Corporation and Finova Capital Corporation (the "LaSalle Syndicate").

In addition to the LaSalle Revolver, American Tissue obtained financing through a private placement in July 1999 of approximately \$165 million worth of senior secured notes, which were publicly traded securities. As a result of the bond offering, American Tissue was required to file quarterly and



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consolidated year-end financial statements with the Securities and Exchange Commission. Arthur Andersen was American Tissue's auditor in connection with its consolidated year-end public filings with the SEC.

The LaSalle Revolver, entered into in July 1999, was divided into two sub-lines of credit -- one secured by eligible American Tissue inventory, and a second secured by genuine accounts receivable resulting in an unconditional obligation of a third party to pay American Tissue within 90 days. American Tissue was required to file periodic "collateral reports" with the LaSalle Syndicate and bondholders identifying the accounts receivable and inventory it relied upon to draw on the line of credit.

American Tissue's Expansion Program

From 1999 until its collapse in September 2001, American Tissue pursued an aggressive expansion strategy, purchasing numerous facilities throughout the country, despite a depressed paper market. As a result of these acquisitions and an excess of inventory, American Tissue became a "cash poor" company.

The Fraud on LaSalle

According to the indictment, the fraud on the LaSalle Syndicate took a variety of forms. For example, beginning as early November 2000, the defendants GABAYZADEH and STEIN, with others, used the books and records of an American Tissue affiliate, Pulp and Paper of America, to record at least \$25 million in phony sales, which were reported to the LaSalle Syndicate as legitimate sales in the collateral reports. Additionally, to avoid paying down the accruing debt under the Revolver, the defendants GABAYZADEH and STEIN diverted tens of millions of dollars due and owing to LaSalle to other companies, including the defendant SUPER AMERICAN TISSUE INC. These diverted funds were used, in part, by GABAYZADEH and others to fund additional American Tissue acquisitions and to pay off other debts.

In 2000, the LaSalle Syndicate raised the inventory lending limit by \$15 million, allowing American Tissue to temporarily borrow an additional \$15 million secured by inventory. However, in March 2001, when LaSalle discovered that American Tissue was not selling inventory to pay off the increased line of credit, LaSalle announced that it would return to the original inventory limit by lowering it in stages. To make up for the anticipated borrowing shortfall caused by LaSalle's reduction of the lending limit, in April 2001 and May 2001, the defendants GABAYZADEH, STEIN, LORENZ and AMZAD, and others, inflated American Tissue's accounts receivable borrowing base by falsely claiming that it had sold more than \$20 million worth of inventory, by creating fictitious sale transactions and manufacturing bogus supporting documentation. According to the indictment, the inflated accounts receivable were claimed as assets by American Tissue in its third quarter 2001 financial report (10Q) filed with the SEC, creating the false appearance of a profitable company.

In order to obtain new financing, and to conceal the fraudulent billings, the indictment charges that in the spring and summer of 2001, American Tissue, through GABAYZADEH, STEIN and others, proposed a corporate reorganization and consolidation of many, but not all, of American Tissue's affiliates into a recently created corporate entity, the defendant AMERICAN PAPER CORPORATION. As a part of this reorganization, American Tissue sought financing from another lending institution and proposed a new \$400 million bond offering to repurchase the outstanding American Tissue bonds and repay the LaSalle Revolver. Andersen acted as a consultant in connection

with the preparation of the offering memorandum. However, because of the precarious financial condition of American Tissue, the consolidation and bond offering never went forward.

The Collapse of American Tissue

During August 2001, following the failed bond offering, the indictment charges that the LaSalle Syndicate uncovered numerous accounting irregularities at American Tissue, including the fictitious April and May 2001 sales, and tens of millions of dollars of uncollectible accounts receivables. As a result, in August 2001, LaSalle declared American Tissue in breach of the Revolver and directed American Tissue to hire outside "crisis consultants." In mid- August 2001, Price Waterhouse Coopers ("PWC") was retained. Shortly after being retained, PWC discovered, among other things, the fictitious sales transactions in which American Tissue created fraudulent accounts receivable. PWC also discovered that contrary to the publicly filed financial statements for fiscal 2000 certified by Arthur Andersen, American Tissue was not profitable and was selling inventory at a loss.

During the Labor Day weekend of September 2001, following PWC's discovery of the fraudulent activity at American Tissue, GABAYZADEH, STEIN and LORENZ, and other representatives of American Tissue, met with senior members of the Andersen audit team, including the defendant BRENDON McDONALD. During the meeting, STEIN resigned from his position at American Tissue, and LORENZ advised the auditors of the fraud.

Obstruction of Justice

Following the Andersen meeting, the complaint charges that BRENDON McDONALD, in a series of "urgent" phone calls, directed Andersen auditors to forward certain American Tissue documents to his home, to delete all e-mails related to American Tissue, and, finally, to destroy certain American Tissue-related documents in their possession. According to the complaint, the Andersen employees complied with McDONALD's directions. On September 4, 2001, McDONALD arranged for a shredding company to make an unscheduled trip to Andersen's Melville office and shred several bins of American Tissue documents.

Bankruptcy

On September 5, 2001, American Tissue notified the SEC of the inventory and accounts receivable fraud. On September 10, 2001, American Tissue Inc. and twenty-seven affiliates sought Chapter 11 bankruptcy protection in Delaware. At that time, American Tissue owed approximately \$145 million dollars to the LaSalle Syndicate and approximately \$160 million dollars to the American Tissue bondholders. The bankruptcy court has since appointed a restructuring advisor to wind down the business of American Tissue and pay off its debts. As a result, many of American Tissue's 2,700 employees were laid off, and most mills and other American Tissue facilities were sold to third parties.

American Paper Corporation/Super American Tissue Inc.

As detailed in the indictment, GABAYZADEH's fraudulent conduct continued following American Tissue's filing for bankruptcy protection. Specifically, during the summer of 2002, a paper company, Cellu Tissue, arranged for the purchase from liquidation of an American Tissue facility located in Neenah, Wisconsin. GABAYZADEH, then operating as a representative of defendants SUPER AMERICAN TISSUE INC. and AMERICAN PAPER CORPORATION, falsely claimed ownership of numerous pieces of equipment at the Neenah facility and falsified the value of equipment claimed to be owned by SUPER AMERICAN TISSUE.

In announcing the charges and the guilty pleas, United States Attorney **ROSLYNN R. MAUSKOPF** stated, "The defendants' fraud scheme, when pared down to its essentials, was really quite simple. As American Tissue's business began to fail and its lenders became alarmed, the defendants created bogus accounts receivable to give the appearance of a profitable company and thereby allow the company to borrow even more investor funds. The defendants then claimed these phony receivables as assets in a financial report filed with the Securities and Exchange Commission. Finally, in an attempt to cover up the scheme, the Arthur Andersen audit team shredded the incriminating records. When the house of cards collapsed, lenders, investors and bondholders lost nearly \$300 million, and most of American Tissue's 2,700 employees were laid off.

"This is a classic case of corporate greed, fraud and obstruction. It is exactly the type of case that this office, as one of the seven U. S. Attorneys' Offices on the President's Corporate Fraud Task Force, is committed to investigating and prosecuting to the full extent of the law." Ms. **MAUSKOPF** also thanked the Securities and Exchange Commission for their invaluable assistance and stated that the investigation is continuing.

United States Postal Inspector-in-Charge **WILLIAM E. KEZER** stated, "I commend the Postal Inspectors, Assistant U. S. Attorneys, FBI Agents, and SEC investigators for their tireless work on this case to date. As a member of the President's Corporate Fraud Task Force, the U. S. Postal Inspection Service will continue to work with its law enforcement and regulatory agency partners to identify, investigate and prosecute corporate fraud cases."

FBI Assistant Director-in-Charge **KEVIN P. DONOVAN** stated, "In the investigation of these defendants, the paper trail of phony sales transactions, bogus supporting documentation and numerous accounting irregularities ended quite literally with the destruction of the falsified paper documents by American Tissue's auditor. People lost jobs, investors and banks lost money, and corporate America suffered yet another blow to its reputation and credibility as a result of the frauds committed by these defendants."

If convicted of all counts, **MEHDI GABAYZADEH** faces a maximum of 45 years imprisonment and **ALI AMZAD** faces a maximum of 35 years imprisonment. On each count of conviction, **GABAYZEDAH** and **AMZAD** face a \$250,000 fine or twice the gross gain or loss resulting from their offenses, whichever is greater, the payment of restitution, and three years supervised release. **AMERICAN PAPER CORPORATION** and **SUPER AMERICAN TISSUE INC.** each face a maximum sentence of 5 years probation and a fine of \$500,000 or twice the gross gain or loss resulting from their offenses, and the payment of restitution. The indictment also seeks to forfeit any and all property of each of these defendants constituting or derived from proceeds traceable to their offenses. ⁽¹⁾

On March 7, 2003, **EDWARD I. STEIN** pleaded guilty to conspiracy to commit securities fraud and bank fraud charges, and on those charges faces a maximum sentence of 5 years imprisonment and 30 years imprisonment, respectively, and on each count of conviction a maximum fine of \$250,000 or twice the gross gain or loss resulting from the offenses, the payment of restitution, and three years supervised release. On November 6, 2002, **JOHN LORENZ** pleaded guilty to conspiracy to commit bank fraud and faces a maximum sentence of 5 years imprisonment, a fine of \$250,000 or twice the gross gain or loss resulting from the offense, the payment of restitution, and three years supervised release.

The complaint against **BRENDON McDONALD** charges him with obstruction of justice. If convicted, he faces a maximum sentence of 10 years imprisonment, a \$250,000 fine, the payment of restitution, and three years supervised release.

GABAYZADEH and AMZAD will be arraigned later this afternoon by U.S. District Judge Joanna Seybert, at the U. S. Courthouse in Central Islip, New York. McDONALD's preliminary appearance is scheduled this afternoon before United States Magistrate Judge Arlene R. Lindsay, at the Central Islip courthouse.

The indicted case has been assigned to United States District Judge Joanna Seybert.

The government's case is being prosecuted by Assistant United States Attorneys John Curran, James Miskiewicz and Charles Kelly.

The Defendants:

Name: MEHDI GABAYZADEH
Address: Kings Point, New York
DOB: 10/27/44

Name: EDWARD I. STEIN
Address: Boca Raton, Florida
DOB: 3/8/45

Name: JOHN LORENZ
Address: Lexington, Kentucky
DOB: 7/18/50

Name: ALI AMZAD
Address: Medford, New York
DOB: 4/9/56

Name: BRENDON McDONALD
Address: Levittown, New York
DOB: 10/17/75

Name: AMERICAN PAPER CORPORATION
Address: 300 Rabro Drive, Hauppauge, New York

Name: SUPER AMERICAN TISSUE INC.
Address: 300 Rabro Drive, Hauppauge, New York

. The charges contained in the indictment and complaint are merely allegations, and the defendants are presumed innocent unless and until proven guilty.